



HSBC Asset Management

## Annual Fund Commentary

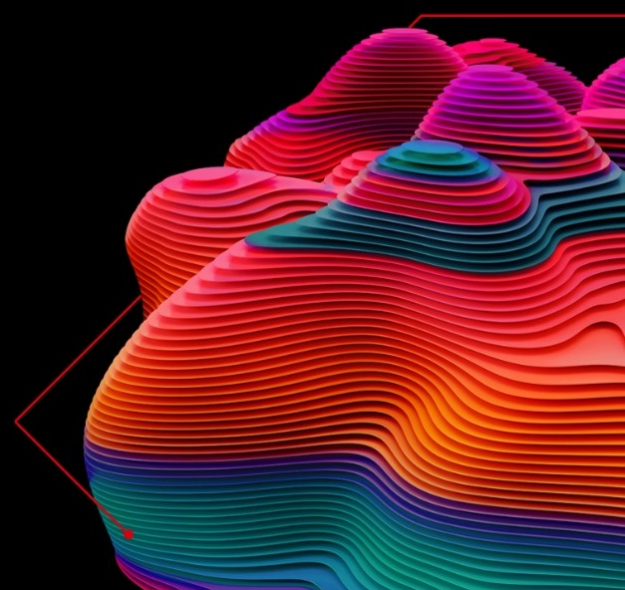
As of 31 December 2023

# HSBC GIF Global Sustainable Long Term Equity Fund

SFDR Article 9 Fund

For Professional Clients only

Marketing Communication.



### Fund Performance (USD%) as of 31 December

	1 Month	3 Month	1 Year	Since Inception (02/09/22)
HSBC GIF Global Sustainable Long Term Equity	6.46	15.24	29.53	24.79
MSCI ACWI NR	4.80	11.03	22.20	16.49
Difference	1.66	4.20	7.33	8.30
Morningstar Quartile Ranking	1	1	1	1

### Discrete annual performance (USD%) as of 31 December 2023

	31/12/2022 to 31/12/2023
HSBC GIF Global Sustainable Long Term Equity	29.53
MSCI ACWI NR	22.20
Difference	7.33

**Past performance does not predict future returns. The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested.**

Source: HSBC Asset Management as of 31/12/23.

Gross of fees. The fund is denominated in USD. Returns may vary with fluctuations in the exchange rate.

SFDR Effective date – 2<sup>nd</sup> September 2022

### Market Review

- We preface the macro commentary by noting that company selection within this Fund is driven by bottom-up fundamentals and valuations, rather than a desire to use stocks to 'play' a predicted, short-term macro theme:
- MSCI ACWI returned 22.20% during 2023, which for many was an unexpectedly strong return that marked a drastic difference compared to 2022 where the energy crisis, elevated inflation and hawkish central banks dampened investor sentiment and contributed to the fall in equities.
- US equities posted strong gains in 2023 with an important driver being growing investor optimism about artificial intelligence (AI) which boosted many tech stocks that benefit from its development and use. For much of the year returns were concentrated in the 'magnificent 7' however the rally broadened going into Q4 with strong performance across the S&P 500 as investors began to price in rate cuts in the first half of 2024
- European stocks also benefitted from the AI-trend in the first half of the year whereas the prospect of future rate cuts supported equities towards year-end. In November Eurozone annual inflation fell to 2.4% from 2.9% in October, much improved from 10.1% a year previous.

Source: Bloomberg, 31st December 2023

This is a marketing communication. Please refer to the Prospectus and the KID of the funds before making any final investment decisions..

## Strategy Review

During 2023, the strategy returned 29.53%, outperforming the benchmark by 7.33%.

Contributors to absolute performance included:

- During late March **Adobe** began the rollout of its new generative AI product, Adobe Firefly. Since launch the product has been integrated into one of the company's flagship products, Photoshop, allowing users to make edits using text prompts. The beta release of Firefly has been one of Adobe's most successful in the company's history seeing over three billion assets generated using AI. Further developments came during October as the company announced plans to broaden its Firefly product suite into audio, video, and 3D content. Continuous development such as this reinforces our investment case. As the market leader, Adobe has a large installed user base that provides data that is collected and analysed to inform new feature development. This results in a product that improves over time as opposed to other products which depreciate and degrade.
- **Microsoft**, another beneficiary of the AI theme which led the market in 2023, Microsoft experienced the tailwinds from Nvidia's earnings release being tipped to be a key winner of the AI revolution. The company has also enjoyed strong share price performance in recent months with approval coming from the CMA for their acquisition of Activision Blizzard and strong earnings showing a beat across all segments as customers hotly anticipate the rollout of Microsoft's AI capabilities.
- **ASML** Gained throughout 2023 fuelled by a series of strong earnings and guidance upgrades. Investors gained confidence that the semi-conductor cycle has now bottomed out with bookings expected to ramp up through 2024 to 2026 as the transition to Extreme Ultra-Violet continues, a technology ASML is the sole provider of. Major customers such as TSMC, Intel, and Samsung continue to grow capacity with notably new fabrication plants in the US. Additionally, the AI theme presented tailwinds earlier in the year as ASML's largest customer TSMC will be the manufacturer of Nvidia's AI chips.

Detractors to absolute performance included:

- The US-based soft drinks and snack business, **PepsiCo**, had a weak 2023 alongside other packaged food and beverage peers as the anticipated impacts of GLP-1 weight loss drugs weigh on sentiment. Despite this, Pepsi continues to perform well with the company leading the way by adding numerous healthier brands to its product portfolio and continuing its sodium reduction plans, aiming for at least 75% of its global convenient foods portfolio volume to meet or be below category sodium targets by 2030.
- During June, **CSL** held a market update for investors flagging exchange rate headwinds for fiscal year 2023 in addition to, long-lasting COVID-19 and inflation impacts, lowering fiscal year 2024 guidance. CSL, a business centred around converting donated blood plasma into treatments for rare diseases, responded to COVID restrictions in 2020 by increasing fees paid to donors. However, as restrictions have eased a rising cost of living has meant that upward pressures on fees have remained reducing the industry's ability to return to normal fees. Additionally, the company has suffered headwinds, alongside many other healthcare companies, from the success of Novo Nordisk's weight loss drug Ozempic. Trial data has shown success in delaying kidney disease leading to concerns surrounding the future of CSL's therapies for kidney disease.
- **Coloplast** retreated after strong performance at the start of 2023 as investors reacted poorly to the company's interim results released in May. Lockdowns in China stunted growth in emerging markets in addition to inflation hitting margins. Although our strategy purposefully invests in companies with high and resilient gross margins this result was largely expected. Coloplast sells into markets where price is heavily regulated resulting in price increases that lag cost increases. However, this shouldn't be a worry for the long-term investor as Coloplast has a strong history of delivering price increases with gross margins stabilising at +65% historically, which we expect to continue for the foreseeable future.

### Past performance does not predict future returns.

Source: HSBC Asset Management as of 30/12/23. IC USD share class, net of fees. The fund is denominated in USD. Returns may vary with fluctuations in the exchange rate. The decision to invest in the fund should take account of all the characteristics or objectives as described in the prospectus or equivalent document.

## Portfolio Turnover

During 2023, we exited our positions in **Unilever, Nestle, Lindt, SGS** and **Costco** and initiated positions in **Alcon** and **Mettler Toledo**.

Alcon is a Swiss manufacturer of contact lenses. Contact lens demand is exceptionally resilient to macroeconomics, with all 3 categories (corrective, therapeutic and cosmetic) growing strongly even during the financial crisis. We have long liked the lens (traditional eyeglasses) business, as there is much innovation (which manifests in strong pricing for premium or new products), distribution advantages and brand loyalty. Contact lenses (vs lenses) are an even more advantaged product category because of the nature of contacts, i.e. actually making contact with the eye, there is an increased range of issues to solve.

Mettler Toledo is a US precision and inspection equipment manufacturer. The company benefits from consistently investing in R&D alongside an extensive product offering. This has enabled market leading positions in small end markets that are not attractive enough for large players and where smaller competitors cannot compete with Mettler Toledo's scale advantages. We like the precision and inspection equipment industry as product cost makes up a small component of the manufacturing process but is mission critical to quality and waste prevention, thus creating strong pricing power.

Source: Bloomberg, 31st December 2023

## Key risks

**Investing involves risk and the value of an investment and the income from it may fall as well as rise. You may not get back the full amount invested.**

- ◆ Counterparty Risk: The possibility that the counterparty to a transaction may be unwilling or unable to meet its obligations.
- ◆ Derivatives Risk: Derivatives can behave unexpectedly. The pricing and volatility of many derivatives may diverge from strictly reflecting the pricing or volatility of their underlying reference(s), instrument or asset.
- ◆ Emerging Markets Risk: Emerging markets are less established, and often more volatile, than developed markets and involve higher risks, particularly market, liquidity and currency risks.
- ◆ Exchange Rate Risk: Changes in currency exchange rates could reduce or increase investment gains or investment losses, in some cases significantly.
- ◆ Investment Leverage Risk: Investment Leverage occurs when the economic exposure is greater than the amount invested, such as when derivatives are used. A Fund that employs leverage may experience greater gains and/or losses due to the amplification effect from a movement in the price of the reference source.
- ◆ Liquidity Risk: Liquidity Risk is the risk that a Fund may encounter difficulties meeting its obligations in respect of financial liabilities that are settled by delivering cash or other financial assets, thereby compromising existing or remaining investors.
- ◆ Operational Risk: Operational risks may subject the Fund to errors affecting transactions, valuation, accounting, and financial reporting, among other things.

Further information on the potential risks can be found in the Key Information Document (KID) and/ or the Prospectus or Offering Memorandum.

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The decision to invest in the fund should take account of all the characteristics or objectives as described in the prospectus or equivalent document. Detailed information for article 8 and 9 sustainable investment products, as categorised under the Sustainable Finance Disclosure Regulation (SFDR), including; description of the environmental or social characteristics or the sustainable investment objective; methodologies used to assess, measure and monitor the environmental or social characteristics and the impact of the selected sustainable investments and; objectives and benchmark information, can be found at:

<https://www.assetmanagement.hsbc.co.uk/en/intermediary/investment-expertise/sustainable-investments/sustainable-investment-product-offering>

HSBC GIF Global Sustainable Long Term Equity is actively managed.

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